

Business Advice Portal

Profitable pricing - support tools and resources

Prevent profits slip sliding away by mastering the science of pricing...

Start by asking yourself:

How do you know if you're making the most profit from the current pricing structure you offer your customers?



STOP offering one price and taking a sense of control away from your buyers.



START giving your buyers top-down, 3-tier pricing options, so they feel in control and are more likely to buy from you.

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Profitable Pricing

The question you must ask if you are serious about growing the profitability of your business this year, next year and every year...

How do you know that offering 3-tier top-down pricing options to your customers will result in greater profits?

Where is the value in this question?

The question rightly suggests you should seek ways of pricing more profitably.

Putting the question to work for you: Pretend that the three beer options described below are three of your service options or three product options. Put your 'standard' price into the low price beer option and then add in two pricing tiers (right).

Then work out how your revenues would improve if you achieved similar changes in sales quantities as those in the beer example. The grid on the right can help you.

Need more convincing?

The stories and insights in the Business Bitesize report should convince you of the power of 3-tier pricing options. The impact on beer sales in the report should be enough to persuade you to test 3-tier pricing for yourself. You'll find another 3-tier pricing example on page 3.

In the next section you'll see the type of businesses that take 3-tiered pricing seriously. Given the success of these companies we hope it persuades you further to take 3-tier pricing seriously.

Important: If you already use the power of top-down 3-tier pricing you'll be able to easily point to the revenues from each tier of pricing and the extra profit margin you make from each. Should you want help working out the profit from each tier of pricing in your business then get in touch – you'll find our contact details at the end of this report.

Have a look at the examples on the following pages and see the sort of companies that have embraced 3-tier pricing. They don't always opt for a top-down approach to their three prices but they take three pricing options very seriously. Shouldn't you do the same?

		
Price	£1.80	£2.50
Buyers	20	80
Sales	£36	£200

			
Price	£1.80	£2.50	£3.40
Buyers	5	85	10
Sales	£9	£213	£34

Your price (1 option)	
No. of buyers	
Sales revenue	

Your price (2 options)		
No. of buyers		
Sales revenue		

Your price (3 options)			
No. of buyers			
Sales revenue			

3-tier Pricing

Examples to start your collection.

It pays to collect pricing examples in your industry or similar industries. Look for 3-tier pricing your customers use to buy other products or services from other suppliers. Here are some familiar (general) examples you'll recognise to help start you off.

Apple on their 21.5inch iMac 3-tier pricing

Notice how the subtle use of the grey line brings emphasis to the retina display version on the right.

Notice also how the extra £150 pounds of the mid tier option gets the same graphics processor as the top option and that the processor is almost twice the speed (2.8Ghz as opposed to 1.6Ghz and almost as fast as the top option at 3.1Ghz) but is £150 less than the top model. Apple are using the technology to clearly demonstrate the value differences – screen type, processor speed, graphics card. *How can you apply this pricing approach to your business?*



21.5-inch iMac

[Get help buying. Chat live now](#)

NEW

**1.6GHz Processor
1TB Storage**

1.6GHz dual-core Intel Core i5 processor
Turbo Boost up to 2.7GHz
8GB of onboard memory, configurable up to 16GB
1TB hard drive¹
Intel HD Graphics 6000
1920x1080 sRGB display

 Delivers:
Wed 25 May – Free
[Get more delivery options](#)

 Available for pickup:
[Check availability](#)

£899.00
Includes VAT of approx. £150.00.*
[From £43.15 per month for up to 24 months¹](#)

[Select](#) 



21.5-inch iMac with Retina 4K display

[Get help buying. Chat live now](#)

NEW

**2.8GHz Processor
1TB Storage**

2.8GHz quad-core Intel Core i5 processor
Turbo Boost up to 3.3GHz
8GB of onboard memory, configurable up to 16GB
1TB hard drive¹
Intel Iris Pro Graphics 6200
1920x1080 sRGB display

 Delivers:
Wed 25 May – Free
[Get more delivery options](#)

 Available for pickup:
[Check availability](#)

£1,049.00
Includes VAT of approx. £175.00.*
[From £50.35 per month for up to 24 months¹](#)

[Select](#) 



21.5-inch iMac with Retina 4K display

[Get help buying. Chat live now](#)

NEW

**3.1GHz Processor
1TB Storage**

3.1GHz quad-core Intel Core i5 processor
Turbo Boost up to 3.6GHz
8GB of onboard memory, configurable up to 16GB
1TB hard drive¹
Intel Iris Pro Graphics 6200
Retina 4K 4096x2304 P3 display

 Delivers:
Wed 25 May – Free
[Get more delivery options](#)

 Available for pickup:
[Check availability](#)

£1,199.00
Includes VAT of approx. £200.00.*
[From £57.55 per month for up to 24 months¹](#)

[Select](#) 

EasyJet multiple pricing options

Notice how they anchor you to the lowest fare (because they are a low-fare airline) so you can compare and contrast other flight options on other days/times. We end up comparing the convenience of other flight times with the lowest fare to help us make a value decision. *How could you apply this approach to your business?*

easyJet

1 Flights >> 2 Flight options >> 3 Hotels >> 4 Car rental >> 5 Checkout >> 6 Confirmation

Choose your flight

SEARCH AGAIN

Choose type of fare

STANDARD FLEXI

WINTER 2016/2017
Flights available up until 5 Feb 2017

FLEXI
✓ Up Front seats
✓ Hold Luggage
+ much more...

Compare fares

3 day view 3 week view Year view

✈ Outbound journey

London Gatwick to Barcelona

121 people currently looking at this route

Wed 19 Oct Thu 20 Oct Fri 21 Oct

£5137
Dep 07:25
Arr 10:30

£5837
Dep 07:25
Arr 10:30

£14037
Dep 07:25
Arr 10:30

£4737
Dep 11:30
Arr 14:35

£5837
Dep 09:10
Arr 12:15

£14037
Dep 09:10
Arr 12:15

£5137
Dep 14:20
Arr 17:25

£9237
Dep 11:30
Arr 14:35

£14037
Dep 11:30
Arr 14:35

LOWEST FARE

£4137
Dep 16:50
Arr 19:55

£5037
Dep 14:20
Arr 17:25

£9787
Dep 14:20
Arr 17:25

£4237
Dep 19:50
Arr 22:55

£6037
Dep 16:50
Arr 19:55

£10237
Dep 16:50
Arr 19:55

£6237
Dep 19:50
Arr 22:55

£10837
Dep 19:50
Arr 22:55

✈ Return journey

Barcelona to London Gatwick

122 people currently looking at this route

Sun 20 Nov Mon 21 Nov Tue 22 Nov

LOWEST FARE

£1937
Dep 07:20
Arr 08:40

LOWEST FARE

£1937
Dep 07:20
Arr 08:40

LOWEST FARE

£1937
Dep 14:10
Arr 15:30

LOWEST FARE

£2637
Dep 11:10
Arr 12:30

LOWEST FARE

£1937
Dep 10:35
Arr 11:55

LOWEST FARE

£1937
Dep 18:00
Arr 19:20

LOWEST FARE

£3137
Dep 12:30
Arr 13:50

LOWEST FARE

£1937
Dep 12:30
Arr 13:50

LOWEST FARE

£1937
Dep 19:45
Arr 21:05

LOWEST FARE

£3137
Dep 14:10
Arr 15:30

LOWEST FARE

£1937
Dep 14:10
Arr 15:30

LOWEST FARE

£3537
Dep 18:00
Arr 19:20

LOWEST FARE

£1937
Dep 18:00
Arr 19:20

LOWEST FARE

£3437
Dep 19:45
Arr 21:05

LOWEST FARE

£1937
Dep 19:45
Arr 21:05

Your Trip to Barcelona

Show in currency Pounds Sterling

✈ Outbound
London Gatwick to Barcelona

✈ Return
Barcelona to London Gatwick

Final Price £000

Pay by Credit Card: £0.00

Pay by Debit Card: £0.00

Add more flights Continue

Savings for children

What do our fares include?

	Standard	FLEXI
Flight fare and taxes	✓	✓
Cabin bag	✓	✓
Hold luggage	Extra	✓
Seat selection	Extra	✓
easyJet Plus Speedy Boarding	X	✓
easyJet Plus bag drop	X	✓
Fast Track Security*	X	✓
Unlimited date changes	X	✓
Free route changes	X	✓
No payment fees	X	✓

SHOW FLEXI FARES

4

TripAdvisor pricing options

Notice how every hotel has two prices to choose from so giving the browser a sense of certainty about pricing and also a sense of control about choosing the best deal available.

Two options with a third option to look at the other deals – where there are 12 more deals or 7 more deals.

Check out the boxed summary of facilities for easy decision making too – we know Hotel The Serras has a pool and is classed as luxury.

There is almost an endless stream of hotels to choose from which can reduce the likelihood of a decision but the left column menu allows us to reduce the options (type of accommodation, pricing band, star rating, value rating). TripAdvisor is putting us in the driving seat, we have control.

How good are you at putting your buyers in control?

The screenshot displays the TripAdvisor website for 'Province of Barcelona Hotels'. The top navigation bar shows the location path: Europe > Spain > Catalonia > Province of Barcelona > Province of Barcelona Hotels. A search bar at the top right includes a 'View Map' button. Below the search bar, the 'PriceFinder' section shows the search criteria: 21/10/2016 to 24/10/2016, 1 room, and 2 adults. The 'Sort by' dropdown is set to 'Availability'. The left sidebar contains filters for 'Accommodation' (Hotels, B&B and Inns, Speciality Lodging, Holiday Rentals, Hotels with Special Offers), 'Price per night' (a slider from £26 to £800), 'Hotel class' (5 stars to 2 stars), and 'Style' (Budget, Luxury, Mid-range, Best Value). The main content area lists four hotels:

- Park Hotel Barcelona**: 526 Reviews, #218 of 871 hotels in Province of Barcelona. Price: £102* (Expedia) / £108* (TripAdvisor). View all 12 deals from £98*.
- Hotel The Serras**: 411 Reviews, #1 of 871 hotels in Province of Barcelona. Price: £280* (Expedia) / £280* (TripAdvisor). View all 7 deals from £280*.
- Mercer Hotel Barcelona**: 887 Reviews, #2 of 871 hotels in Province of Barcelona. Price: £336* (Agoda) / £339* (TripAdvisor). View all 12 deals from £336*.
- Casa Camper Hotel Barcelona**: 1,466 Reviews, #3 of 871 hotels in Province of Barcelona. Price: £201* (Booking.com) / £201* (TripAdvisor). View all 12 deals from £201*.

FRAPPUCCINO

Blended Beverages

CHOOSE YOUR

MILK: Whole, 2% or Nonfat, Organic Soy milk +59¢

COFFEE: Decaf, Extra Coffee +49¢, Espresso Shot +79¢

CALORIES: No Whip, *Light (1/3 fewer calories)

COFFEE

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 24 fl. oz.
Caramel*	4.29	4.99	5.49
Mocha*	4.29	4.99	5.49
Java Chip*	4.29	4.99	5.49
Coffee*	3.59	4.29	4.99
White Chocolate Mocha*	4.29	4.99	5.49
Mocha Light*	4.29	4.99	5.49

CRÈME (COFFEE-FREE)

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 24 fl. oz.
Vanilla Bean	3.59	4.29	4.99
Strawberries & Crème	4.29	4.99	5.49
Double Chocolate Chip	4.29	4.99	5.49
Green Tea	4.29	4.99	5.49

SMOOTHIES

Blended with a Whole Banana & Whey Protein (Contains Dairy)

Chocolate, Orange Mango, or Strawberry 4.49

ESPRESSO

SIGNATURE

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 20/24 fl. oz.
Caramel Macchiato*	3.99	4.79	4.99
White Chocolate Mocha	3.99	4.79	4.99
Cinnamon Dolce Latte*	3.99	4.79	4.99

BOLD & BOLD

	1 fl. oz.	2 fl. oz.
Espresso	2.99	3.99

CLASSICS

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 20/24 fl. oz.
Caffè Latte*	3.69	3.99	4.39
Caffè Mocha*	4.29	4.59	4.89
Iced Caffè Mocha*	3.99	4.79	5.29
Vanilla Latte*	4.29	4.59	4.89
Skinny Vanilla Latte*	4.29	4.59	4.89
Caffè Americano	2.49	2.79	3.29
Cappuccino*	3.69	3.99	4.39

MAKE IT YOURS

*TRY IT SKINNY: Nonfat Milk, Sugar-Free Syrup, No Whip
FLAVOR: +49¢ Vanilla, Hazelnut, Caramel or Peppermint

ESPRESSO SHOT: +79¢
ORGANIC SOY MILK: +59¢

STARBUCKS REFRESHERS™

Iced Beverages

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 24 fl. oz.	TRENTA 31 fl. oz.
Cool Lime	3.29	3.79	4.29	4.79
Very Berry Hibiscus	3.29	3.79	4.29	4.79

ICED COFFEE & ICED TAZO® TEA

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 24 fl. oz.	TRENTA 31 fl. oz.
Iced Coffee	2.19	2.59	2.99	3.49
Iced Coffee with Milk	2.19	2.59	2.99	3.49
Shaken Iced Tazo® Tea	1.99	2.49	2.99	3.29
Iced Tazo® Tea Lemonade	2.99	3.49	3.99	4.29

COFFEE, TAZO® TEA & MORE

	TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 20 fl. oz.		TALL 12 fl. oz.	GRANDE 16 fl. oz.	VENTI 20 fl. oz.
Freshly Brewed Coffee (Reg or Decaf)	1.99	2.19	2.49	Full-Leaf Tazo® Tea	2.29	2.49	2.79
Caffè Misto	1.99	2.19	2.49	Hot Chocolate	2.99	3.39	3.69
Tazo®, Chai Tea Latte	3.49	4.29	4.49	Kids' Hot Chocolate (12 and under)	2.89	8 fl. oz.	

Sales tax to be added. Nutrition information available on request. Iced prices may vary.

Starbucks pricing options

You'd expect Starbucks to be expert at pricing options, and they are.

Can you find any product that doesn't have 3-tier pricing on this menu? OK so there's only 2 espresso options but hey! - they make tiered pricing work on everything!

What more could you do to use 3-tier pricing options on your products or services?



BMW 640 pricing options

Top-down vs Bottom-up - five coupé options and five convertible options with on the road prices from £73,675 down to £60,630.

Oddly BMW are going for a bottom-up pricing approach on their premium products.

Wouldn't it make more sense for BMW to organise their prices top-down so they anchor buyers on the high price, and make the lower prices seem 'well priced'?

Or list the convertible prices first before the cheaper coupé prices? *What small modifications about your pricing layout could help your buyers make better value decisions?*

PRICING INFORMATION.								
Model	Basic price (excluding VAT)	VAT 20%	Retail price (including VAT)	On the road price	P11d value	BIK tax rate (2014 / 2015)	VED band	Insurance group
COUPÉ					Automatic			
640i SE	£49,587.50	£9,917.50	£59,505	£60,630	£60,230	28%	I	47
640i M Sport	£53,475.00	£10,695.00	£64,170	£65,295	£64,895	29%	I	47
650i M Sport	£60,045.83	£12,009.17	£72,055	£73,470	£72,780	34%	K	49
640d SE	£51,837.50	£10,367.50	£62,205	£63,130	£62,930	24%	F	48
640d M Sport	£55,725.00	£11,145.00	£66,870	£67,795	£67,595	25%	F	48
Model	Basic price (excluding VAT)	VAT 20%	Retail price (including VAT)	On the road price	P11d value	BIK tax rate (2014 / 2015)	VED band	Insurance group
CONVERTIBLE					Automatic			
640i SE	£54,695.83	£10,939.17	£65,635	£66,760	£66,360	29%	I	50
640i M Sport	£58,375.00	£11,675.00	£70,050	£71,175	£70,775	30%	I	50
650i M Sport	£64,941.67	£12,988.33	£77,930	£79,345	£78,655	35%	K	50
640d SE	£56,945.83	£11,389.17	£68,335	£69,260	£69,060	25%	F	50
640d M Sport	£60,625.00	£12,125.00	£72,750	£73,675	£73,475	25%	F	50

Pricing Exercises

To prove to your team the power of top-down pricing.

Use this fun exercise with ping pong balls to make your point

Mark an equal number of ping pong balls with the number 10, the others mark with the number 65.

Get each person to select a ping pong ball at random from a dark bag or box (tell them there's a variety of numbers on the ping pong balls AND ask them to keep their number secret).

Then ask them the two questions about something they are unlikely to know:

- 1 Do you think the percentage of African countries in the UN is above or below the number on your ping pong ball?
- 2 What do you think is the percentage of African countries in the UN?

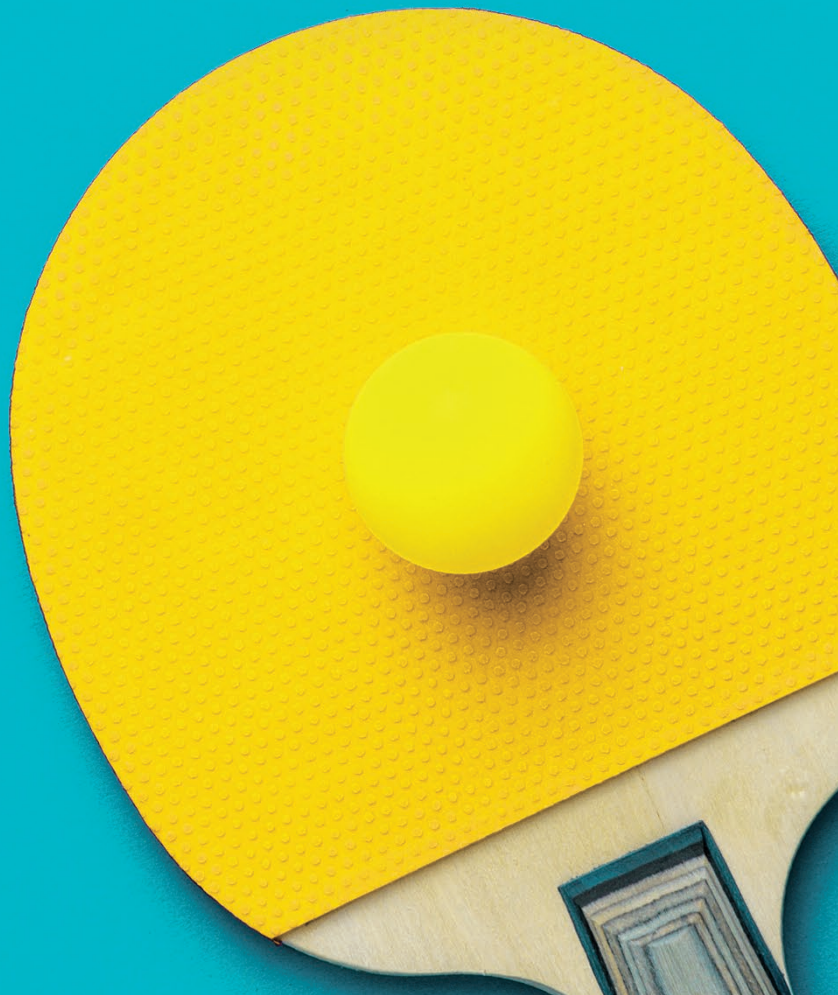
Then on two separate A1 sheets capture the answers and get your audience to work out the average on each board – an average for the board who held number 10 balls, an average for the board who held number 65 balls.

The results will typically prove the power of anchoring. This is made even more powerful when you then share the story of the baby geese hatching and how they are anchored to the first moving object.

Check out pages 150 - 154 of Poundstone's book 'Priceless' for more background on this pricing exercise – it will build your confidence in the outcome.

Alternative or additional exercise

- 1 Get half your audience/team to turn around so they can't see your flip chart or your projected slides.
2. Before you show the calculation to the half still looking, let them know they have 'just 5 seconds' to work out or guess the value of the calculation, repeat 'just 5 seconds'.
3. Then show the flip chart page with these numbers in a line as shown:
 $1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8$
4. Instantly count five seconds from your watch then remove the flip chart page or screen (without revealing the next calculation for the next group).
5. Get them to write their answer down on a large piece of paper then hide it from everyone.



All change

1. Reverse the team/audience. Get the other half of your audience/team to turn around so they see your flip chart or your projected slides. And the others face away and cannot see.
2. Before you show the calculation to the new half who can see the flip chart or screen, let them know they have 'just 5 seconds' to work out or guess the value of the calculation, repeat 'just 5 seconds'.
3. Then show the flip chart page with these numbers in a line as shown: $8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$
4. Instantly count 5 seconds from your watch then remove the flip chart page or screen.
5. Get them to write their answer down on a large piece of paper then hide it from everyone.

Compare and contrast

Now you capture in two columns the results from the two groups and get the audience to quickly calculate the average for each.

The 12345678 example will typically be less than the 87654321 example. This shows the 1 and 8 anchors at work.

Note: Both will be less than the correct answer 40,320 because of the short time available for working out the maths.

The Book...

and other powerful resources.

William Poundstone - Priceless: The Hidden Power Of Value

William Poundstone has done a brilliant job of pulling together some of the best science about pricing. It's a book every business owner and manager should read and then start testing the insights.

Here's a couple of resources to supplement your pricing learning:

- http://www.huffingtonpost.com/gregory-ciotti/10-classic-academic-studi_b_6182498.html
- <http://www.nickkolenda.com/psychological-pricing-strategies/>
- http://lesswrong.com/lw/j7/anchoring_and_adjustment/

Top-down

3-tier pricing in action.

How an upholstery company used 3-tier pricing to increase sales and profits?

What happens to the sale of expensive wing chairs when an even more expensive wing chair option is introduced?

		
Price	£1,000	£1400
Buyers	90	60
Sales	£90,000	£84,000

			
Price	£1,000	£1400	£1900
Buyers	60	90	6
Sales	£60,000	£126,000	£11,400

An upholstery company sold a total of 150 wing chairs a year. Two chairs were sold. 90 x £1,000 'standard' wing chairs and 60 x £1400 'premium' wing chairs – a 60/40 split. And a total revenue of **£174,000**.

Initially by offering 2 wing chair options, the customer is getting a better experience than the single 'Hobson's Choice'.

When a larger, more expensive 'platinum' wing chair at £1,900 was introduced, the numbers changed.

The company sold 6 'platinum' chairs at £1,900 and again sold 150 of the other two wing chairs. However the ratio reversed. The company sold 60 'standard' chairs at £1,000 and 90 'premium' wing chairs at £1,400.

Total revenue of **£186,000** (ignoring the 6 'platinum' chairs). That's **£12,000** increase in sales. Also because the more expensive 'premium' chair was a higher profit margin chair than the lower 'standard' model this meant considerably more profit.

These results clearly show that:

- When using 3-tier pricing options, the customer experience is improved by having more choice and more control over what they spend on their purchase.
- There are healthy revenues and margins to be had when 3-price options are used.

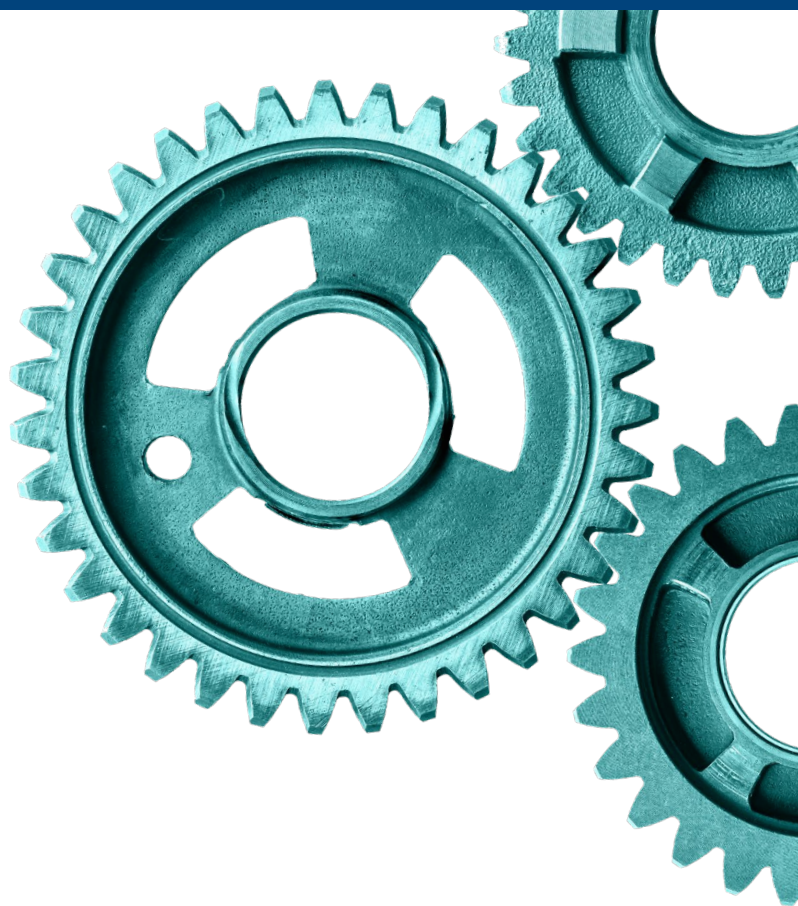
Why not test this for yourselves – try the pricing exercise for your product on page 5 of these support tools.

How can we help?

Our business advice specialists can help you identify your challenges and opportunities and create good strategies that help you achieve your ambitions.

A small investment in professional advice and analysis could have a monumental impact on the success of your business.

We have a long and successful history of helping hundreds of businesses improve their profits, build resilience and flourish, based on industry research, our own experiences and the expertise of our team.



Contact us to find out more about our services

 **0800 234 6978**

 **info@lamontpridmore.co.uk**